

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF
VAL-PAK DEALERS' ASSOCIATION, INC., VAL-PAK DIRECT MARKETING
SYSTEMS, INC., AND CAROL WRIGHT PROMOTIONS, INC.
(VP-CW/USPS-T36-20-23)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of Val-Pak Dealers' Association, Inc., Val-Pak Direct Marketing Systems, Inc., and Carol Wright Promotions, Inc.: VP-CW/USPS-T36-20-23, filed on September 10, 1997.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Anthony F. Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -5402
September 24, 1997

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF VAL-PAK/CAROL WRIGHT**

VP-CW/USPS-T36-20. Please refer to your direct testimony (USPS-T-36, pages 20 and 30), where you state that the proposed 80 percent passthrough of costs avoided due to destination entry with respect to Standard A Regular ECR "continues to encourage mailer dropshipment."

- a. Please confirm that the 80 percent passthrough you are recommending would actually constitute a reduction in the level of the current passthrough, which is 100 percent. If you do not confirm, please explain.
- b. Please state where in your testimony, work papers or library references you explain this reduced passthrough and the reasons for it. Please state all reasons supporting a reduced level of passthrough.
- c. (i) Would a passthrough of 60 percent also continue to encourage mailer dropshipment?
(ii) Would a passthrough of 40 percent?
- d. Please confirm that maintaining a 100 percent passthrough would encourage mailer dropshipment more than reducing the passthrough to 80 percent. If you do not confirm, please state your reasons in detail.
- e. Please confirm that mailer dropshipment facilitates bypassing a portion of the postal network and greater efficiency in mail handling. If you do not confirm, please explain your reasons fully.
- f. Please identify what criteria support a reduction in passthrough for a dropshipment discount once it has become established, and data have been collected which demonstrate its economic efficiency.

RESPONSE:

- a. The current discounts are based on 100 percent passthrough of the costs differences calculated in Docket No. MC95-1, which are lower than the cost differentials calculated in this proceeding.
- b. The rationale for the selected passthrough is discussed at page 20, lines 1-7 of my testimony. See also my response to VP-CW/USPS-T36-3.

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- c. (i) Yes.
- (ii) Yes.
- d. To the extent that a discount based on 80 percent of a given cost savings is not enough to cause a particular mailer to dropship, but a 100 percent passthrough of those same cost savings would cause that mailer to dropship, then, yes, the 100 percent passthrough would encourage more dropshipment. The level of encouragement is determined by the actual discount, not the passthrough underlying it.
- e. The purpose of mailer dropshipment (assuming the alternative would be entry at an upstream facility) is to bypass a portion of the postal network, thereby resulting in reduced costs to the Postal Service.
- f. The rationale for the selected passthrough is discussed at page 20, lines 1-7 of my testimony. See also my response to VP-CW/USPS-T36-3.

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VP-CW/USPS-T36-21. Please refer to your direct testimony (USPS-T-36, page 20) where you state that a passthrough greater than the one you are recommending for Standard A Regular and ECR mail “would result in a larger increase in the basic rates, which conflicts with the general guidelines of tempering individual rate increases.” You also state that such greater passthrough “would require a larger increase in the basic rates, which conflicts with the efforts to mitigate substantial increases for individual rate categories.” (*Id.*, p. 30)

- a. Please list each “increase in the basic rates” which you believe would have resulted from
 - (i) continuing the current passthrough (of destination entry costs/savings) at 100 percent; and
 - (ii) proposing a passthrough of 90 percent.
- b. Please explain the “general guidelines of tempering individual rate increases” and the policy to “mitigate substantial rate increases” as you applied them here, and state their sources.

RESPONSE:

- a. In the cited passage, I am referring to the increase in the basic rates (and subsequently in all of the rates for non-dropshipped pieces) that would be required to fund the increase in the destination entry discounts. One can get an idea of the rate increases that would have resulted by entering higher dropship discount passthroughs in WP1, page 9. For instance, a 100 percent passthrough may have resulted in a proposed increase for Regular Automation 3/5-digit presort flats of 10.6 percent (or 10.1 percent with a 90 percent passthrough), instead of the proposed 9.5 percent; a 100 percent passthrough may have resulted in a proposed increase for ECR Basic Nonletters of 9.0 percent (or 7.7 percent with a 90 percent passthrough) instead of the proposed 5.8 percent; and a 100 percent passthrough may

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have resulted in a proposed increase for ECR Basic letters of 12.7 percent (or 11.3 percent with a 90 percent passthrough) instead of the proposed 9.3 percent. Again, it is important to note that the actual rates might be different in order to meet the target cost coverage.

- b. Please see my response to NAA/USPS-T36-12.

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VP-CW/USPS-T36-22. With regard to Standard A Regular per-piece destination entry discounts, please provide

- (i) the proposed discount and
- (ii) the corresponding unit savings in the test year, for each of the following entry points:

- a. DBMC; and
- b. DSCF.

RESPONSE:

a-b. Savings due to destination entry are calculated on a per-pound basis. It is my understanding that cost savings specifically for piece-rated pieces are not quantified. In order to determine the proposed destination-entry discounts for piece-rated pieces, the breakpoint weight of 3.3 ounces is applied to the per-pound savings. Workpaper 1, page 9, details the per-pound savings due to destination entry, and shows the derivation of the per-piece discounts.

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VP-CW/USPS-T36-23. With regard to Standard A ECR per-piece destination entry discounts, please provide

(i) the proposed discount and
(ii) the corresponding unit savings in the test year, for each of the following entry points:

- a. DBMC;
- b. DSCF; and
- c. DDU.

RESPONSE:

a-c. Savings due to destination entry are calculated on a per-pound basis. It is my understanding that cost savings specifically for piece-rated pieces are not quantified. In order to determine the proposed destination-entry discounts for piece-rated pieces, the breakpoint weight of 3.3 ounces is applied to the per-pound savings. Workpaper 1, page 9, details the per-pound savings due to destination entry, and shows the derivation of the per-piece discounts.

DECLARATION

I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



JOSEPH D. MOELLER

Dated: September 24, 1997

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Anthony F. Alvelino

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